

(via email)

Subject: FlagSESWeb Mail - Sent on behalf of CNO: Navy's Budget Situation

Admirals and Senior Executives,

As part of my regular updates to you, I wanted to keep you informed of Navy's budget situation. We have budget shortfalls today because we are funded under a Continuing Resolution (CR) and may have significant additional budget reductions starting in March because of sequestration. My most immediate concern is to our Operation & Maintenance (OMN) account.

We are operating today with a reduced budget because the CR funds us at FY12 base budget levels. These levels are inadequate for our needs in FY13, falling \$3.2B short of our planned OMN budget. Due to another \$1.4B of unplanned growth, operating under a CR for the entire fiscal year leaves us about \$4.6 billion below our OMN requirements in FY13.

Additionally, the CR provides only limited ability to transfer funds from investment accounts to OMN to cover our shortfalls. Because of this, we need to cut back on ops and maintenance to get our spending rate down where it needs to be to remain within the controls of a yearlong CR.

We are making the following reductions, starting now, to ensure we can fund ongoing deployments and other mission-critical activities. These reductions are intended to be reversible and will continue until a spending bill is passed or we receive authority from Congress to reprogram money from investment accounts into operations and maintenance:

- Plan to cancel the majority of surface ship maintenance availabilities at private shipyards between April and September. This will affect about 30 of our 187 surface ships. We will preserve most availabilities at our public shipyards, but expect throughput to be reduced due to civilian personnel actions that are discussed below.

- Plan to cancel all aircraft depot maintenance from April to September, affecting about 250 aircraft.

- Reduce spending on base operating support and plan to cancel repair and modernization of nearly all piers, runways, buildings and other facilities through Sep 2013.

- Terminate temporary employees and implement a civilian hiring freeze - this will reduce our shipyard workforce by more than 3,000 - almost 10% of the workforce.

- Reduce overhead by cutting IT support, cancelling non mission-essential conferences, and severely limiting travel.

These steps come at a price. Much like putting off an oil change because you can't afford the \$20 service; we save in the short-term, but shorten the car's life and add to the backlog of work for later.

If sequestration comes on March 1, we will have an additional \$4B OMN reduction for FY13. This will require more aggressive actions unless we gain authority to move investment funds into OMN. These actions include:

- Stop nearly all non-deployed operations for training and exercises, which will ultimately prevent CSGs and ARGs from deploying.

- Further reduce deployed operations in the Middle East and Pacific.

- We will retain some CSG training for late FY13 deployers (Nimitz and George H.W. Bush CSGs), but in FY14 we will likely not have trained replacements for our deployed units.

Our Fleet Commanders are studying this issue closely, and we will preserve as much maintenance and training as possible throughout FY13 and into FY14. However, once we shut down our sustainment training it will take our ships and squadrons about 9 months to conduct the maintenance and training needed to be certified to deploy again.

I appreciate your continued support on this pressing issue and I will continue to keep you informed. If you have questions, don't hesitate to ask.

All the best,

Jon